

The Factors Affecting Foreign Reserves in Sri Lanka: Does the Covid-19 Pandemic Matter?

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ABSTRACT

Purpose: The purpose of the study was to determine the factors affecting Foreign Reserves in Sri Lanka and whether the Covid-19 pandemic has impacted foreign reserves in Sri Lanka.

Design/ Methodology/ Approach: To identify the factors that affect foreign reserves the data has been collected from the year 2015 to Month September 2022. To examine the factors affecting foreign reserves, the dependent variables of Export, Import, Exchange rate, Inflation rate, and Covid-19 have been taken as the dummy variable. This study focuses on the factors affecting foreign reserves and whether Covid-19 has a significant impact on foreign reserves special reference to Sri Lanka. The study employed an econometric model to analyze the time series data which are obtained from the Central Bank of Sri Lanka's Monthly Economic Indicators Reports from 2015 to month of September of 2022 and the sample has been captured as the monthly data. This study uses the Johansen Co- Integration method and Vector Error Correlation term (VECM) to identify the long-run relationship between the foreign reserves and the mentioned macroeconomic factors.

Findings: The results indicate that the Export, Import, Exchange rate and Covid-19 situation have a significant impact on foreign reserves in long run. In the short run, the significant variable is only the Export. The unexpected disease of COVID-19, the situation has had a significant impact on the current financial crisis in Sri Lanka. However, the deep financial crisis caused changes in some macroeconomic variables, and in the short run, there may be another factor affecting the changes in foreign reserves.

Originality: The study implies the reasons and the finding about that factors in detail and the study found that some dependent variables have a significant impact on foreign Reserves in Sri Lanka.

Keywords: *Co-integration, Foreign Reserves, Vector Error Correction (VECM), ADF Test, Covid-19*